



Kopanong Local Municipality
Annual Financial Statements
for the year ended June 30, 2012

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

General Information

Legal form of entity	"Local Municipality" as defined by the Municipal Structures Act
Nature of business and principal activities	Providing municipal services as set out in the Constitution
Mayoral committee	
Executive Mayor	Mr. T.X. Matwa
Councillors	Ms. M. Masana (Speaker) Mrs. K. Dlomo Mrs. H.M. Hagemann Mr. D. Phepheng Mr. T. Koyana Mr. D. Matseo Ms. N.C. Spochter Mr. T.A. Phafudi Mrs. N. Stuurman Mr. S.A. Sola Mrs. H. Shebe Mr. B. Smit Mr. L. Rigala Mr. P. Basholo
Grading of local authority	Grade Two Local Authority
Accounting Officer	Mrs. L. Y. Moletsane
Chief Finance Officer (CFO)	Mr. M.J. Mekhoe
Registered office	20 Louw Street Trompsburg 9913
Postal address	Private Bag X23 Trompsburg 9913
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Bomela Attorneys - Bloemfontein

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

General Information

Relevant legislation

Basic Conditions of Employment Act (Act no. 75 of 1997)
Division of Revenue Act
Electricity Act (Act no. 41 of 1987)
Employment Equity Act (Act. no. 55 of 1998)
Housing Act (Act no. 107 of 1997)
Income Tax Act (Act no 58 of 1962)
Municipal Finance Management Act (Act no. 56 of 2003)
Municipal Planning and Performance Management Regulations
Municipal Property Rates Act (Act no. 6 of 2004)
Municipal Structure Act (Act no. 117 of 1998)
Municipal System Act (Act no. 32 of 2000)
Skills Development Levies Act (Act no. 9 of 1999)
South African Local Bargaining Council Regulations
Supply Chain Management Regulation of 2005
Unemployment Insurance Act (Act no. 30 of 1996)
Value-Added Tax Act (Act no. 89 of 1991)
Water Services Act (Act no. 108 of 1997)

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash flow statement	8
Accounting Policies	9 - 21
Notes to the Annual Financial Statements	22 - 52

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statement set out on pages 5 to 52, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012.

Mrs. L.Y. Moletsane

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	2	188,866	98,806
Trade receivables from exchange transactions	3	(184,664)	1,836,404
Other receivables from exchange transactions	4	6,414,247	6,270,203
Other receivables from non-exchange transactions	5	22,311,024	23,402,248
Cash and cash equivalents	6	3,326,108	2,720,283
Short term portion of long term debtors	7	-	5,405
		32,055,581	34,333,349
Non-Current Assets			
Property, plant and equipment	8	700,197,919	692,121,829
Investment property	45	9,491,880	9,491,880
Long term debtors	7	668	1,523
		709,690,467	701,615,232
Total Assets		741,746,048	735,948,581
Liabilities			
Current Liabilities			
Consumer deposits	9	1,359,627	1,155,390
Retirement benefit obligation	46	426,300	387,684
Trade and other payables	11	87,576,106	58,940,831
Long-term liabilities	12	258,656	258,656
Finance lease obligation	13	397,470	237,667
Unspent conditional grants and receipts	14	1,937,542	2,196,246
VAT payable	15	3,218,359	4,630,285
Bank overdraft	6	5,884,574	4,995,662
		101,058,634	72,802,421
Non-Current Liabilities			
Long-term liabilities	12	2,073,584	2,332,240
Finance lease obligation	13	-	397,470
Retirement benefit obligation	46	17,698,243	14,470,431
Provisions	10	23,820,426	-
		43,592,253	17,200,141
Total Liabilities		144,650,887	90,002,562
Net Assets		597,095,161	645,946,019
Net Assets			
Reserves			
Housing Development Fund		-	511,395
Accumulated surplus		597,095,161	645,434,624
Total Net Assets		597,095,161	645,946,019

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Donations		-	46,100
Fines		87,610	129,865
Government grants & subsidies	21	111,411,693	117,507,526
Interest received	17	5,645,227	3,663,891
Other revenue		2,617,055	2,146,541
Property rates	22	7,538,797	7,515,084
Rental of facilities and equipment		1,067,282	998,130
Sale of goods		37,391	36,449
Service charges	23	63,068,661	52,908,021
Total Revenue		191,473,716	184,951,607
Expenditure			
Administration		(601,776)	(573,120)
Bulk purchases	24	(47,982,290)	(39,213,167)
Debt impairment	25	(23,878,024)	(14,784,362)
Depreciation and amortisation		(42,430,260)	(46,427,516)
Employee related costs	26	(67,295,668)	(54,129,324)
Finance costs	18	(5,189,950)	(2,146,522)
General Expenses	27	(34,352,516)	(31,497,008)
Remuneration of councillors	28	(3,645,677)	(3,434,136)
Repairs and maintenance		(3,850,248)	(3,680,940)
Total Expenditure		(229,226,409)	(195,886,095)
Fair value adjustments		(1,223,416)	(3,160,602)
Deficit for the year		(38,976,109)	(14,095,090)

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	511,395	660,656,576	661,167,971
Adjustments			
Prior year adjustments	-	(1,126,862)	(1,126,862)
Balance at July 01, 2010 as restated	511,395	659,529,714	660,041,109
Changes in net assets			
Surplus for the year	-	(14,095,090)	(14,095,090)
Total changes	-	(14,095,090)	(14,095,090)
Opening balance as previously reported	511,395	645,434,624	645,946,019
Adjustments			
Prior year adjustments	-	(9,363,354)	(9,363,354)
Balance at July 01, 2011 as restated	511,395	636,071,270	636,582,665
Changes in net assets			
Housing Development Fund	(511,395)	-	(511,395)
Net income (losses) recognised directly in net assets	(511,395)	-	(511,395)
Surplus for the year	-	(38,976,109)	(38,976,109)
Total recognised income and expenses for the year	(511,395)	(38,976,109)	(39,487,504)
Total changes	(511,395)	(38,976,109)	(39,487,504)
Balance at June 30, 2012	-	597,095,161	597,095,161

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Cash flow statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		185,828,489	181,287,716
Interest income		5,645,227	3,663,891
		<u>191,473,716</u>	<u>184,951,607</u>
Payments			
Employee costs		(70,941,345)	(57,563,460)
Suppliers		(63,508,216)	(118,211,516)
Finance costs		(4,794,505)	(1,426,998)
		<u>(139,244,066)</u>	<u>(177,201,974)</u>
Net cash flows from operating activities	20	52,229,650	7,749,633
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(50,398,408)	-
Proceeds from sale of financial assets		(1,223,416)	(3,160,602)
Proceeds from sale of long term debtors		855	3,549
Net cash flows from investing activities		(51,620,969)	(3,157,053)
Cash flows from financing activities			
Repayment of long-term liabilities		(258,656)	(258,657)
Finance lease payments		(633,112)	(550,532)
Net cash flows from financing activities		(891,768)	(809,189)
Net increase/(decrease) in cash and cash equivalents		(283,087)	3,783,391
Cash and cash equivalents at the beginning of the year		(2,275,379)	(6,058,770)
Cash and cash equivalents at the end of the year	6	(2,558,466)	(2,275,379)

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economics
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment (PPE)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 101	Agricultural
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangibles
GAMAP 9	Revenue from Government Grants
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in existing decommissioning, restoration and similar liabilities
IPSA 20	Related Party Disclosures
IFRS 7	Financial Instruments: Disclosure
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment Reporting
GRAP 20	Related Party Disclosure
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash Generating Assets
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions between entities under Common Control
GRAP 106	Transfer of Functions between Entities Not under Common Control
GRAP 107	Mergers
GRAP 103	Heritage assets

The following GRAP standards have been issued but are not yet effective and have been early adopted by the municipality:

GRAP 21	Impairment of non-cash generating assets
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These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These accounting policies are consistent with the previous period, except for the changes set out in the note of "Changes in accounting policy."

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance. The municipality does not hold any assets with the primary objective to generate a commercial return. Therefore, the municipality has assessed all assets as being non cash generating and has assessed impairment based on GRAP 21 Impairment of non cash generating assets.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.2 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Initial measurement

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand-by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	None
Buildings	5 - 100 years
Furniture and fixtures	1 - 10 years
Motor vehicles	7 - 20 years
Office equipment	3 - 5 years
IT equipment	5 years

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.3 Property, plant and equipment (continued)

Computer software	3 - 5 years
Electricity	3 - 100 years
Roads	5 - 100 years
Water and sanitation	10 - 100 years

Subsequent measurement

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value. Land is not depreciated as it is deemed to have an indefinite useful life.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant different and a useful life that is significantly different in relation to the total cost and useful life of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.5 Financial instruments (continued)

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit.
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit.
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- in rare circumstances
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Trade and other receivables

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.5 Financial instruments (continued)

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.5 Financial instruments (continued)

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between finance cost and capital repayment using the effective interest rate method. The accounting policies relating to derecognition of financial instrument are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful or the lease term.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

The expected cost of leave, bonus and long service bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.7 Employee benefits (continued)

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.9 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.11 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.12 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.13 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of this Act.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.16 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.17 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard.

1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.19 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
2. Inventories		
Game	7,000	13,000
Stationery	138,596	37,942
Water	43,270	47,864
	188,866	98,806
3. Trade receivables from exchange transactions		
Gross balances		
Electricity	368,177	1,878,839
Housing rental	3,434,170	2,954,896
Unallocated debtors receipts	-	(1,285,337)
Refuse	17,912,832	14,451,506
Sewerage	24,400,828	19,627,322
Water	17,738,148	14,406,481
Payments by debtors with multiple account numbers	(2,031,118)	-
Cash control account	-	957,339
	61,823,037	52,991,046
Less: Provision for debt impairment		
Electricity	(1,302,463)	(405,473)
Housing rental	(3,283,750)	(3,066,271)
Refuse	(17,128,235)	(14,291,920)
Sewerage	(23,332,051)	(19,405,038)
Water	(16,961,202)	(13,985,940)
	(62,007,701)	(51,154,642)
Net balance		
Business service levies	(2,031,118)	-
Electricity	(934,286)	1,473,366
Housing rental	150,420	(111,375)
Other (specify)	-	957,339
Unallocated debtors receipts	-	(1,285,337)
Refuse	784,597	159,586
Sewerage	1,068,777	222,284
Water	776,946	420,541
	(184,664)	1,836,404
Electricity		
Ageing not available	368,177	1,473,366
less: Provision for impairment	(1,302,463)	-
	(934,286)	1,473,366
Housing rental		
Current -60 days)	234,317	64,577
61 - 90 days	105,676	55,554
91 - 120 days	91,153	93,373
120 + days	3,003,024	2,741,393
less: Provision for impairment	(3,283,750)	(3,066,272)
	150,420	(111,375)
Refuse		
Current (0 -30 days)	1,222,211	623,963
61 - 90 days	551,211	506,319

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
3. Trade receivables from exchange transactions (continued)		
91 - 120 days	475,458	584,550
120 + days	15,663,952	12,736,673
less: Provision for impairment	(17,128,235)	(14,291,919)
	784,597	159,586
Sewerage		
Current (0 -30 days)	1,664,893	865,914
61 - 90 days	750,859	705,948
91 - 120 days	647,668	810,185
120 + days	21,337,408	17,245,275
less: Provision for impairment	(23,332,051)	(19,405,038)
	1,068,777	222,284
Water		
Current (0 -30 days)	1,210,292	932,897
61 - 90 days	545,836	692,680
91 - 120 days	470,822	673,210
120 + days	15,511,198	12,107,694
less: Provision for impairment	(16,961,202)	(13,985,940)
	776,946	420,541
Reconciliation of debt impairment provision		
Balance at beginning of the year	(51,154,642)	(42,965,968)
Contributions to provision	(10,853,059)	(14,784,362)
Debt impairment written off against provision	-	6,595,688
	(62,007,701)	(51,154,642)
Fair value determination		
Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.		
Unallocated debtors receipts		
Unallocated receipts on service charges at 30 June 2011	-	(1,285,337)
Payments by debtors with multiple account numbers		
Current (0 -30 days)	(2,031,118)	-
Other (specify)		
Ageing not available	-	957,339
Receivables impaired		

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
4. Other receivables from exchange transactions		
Impairment of debtors	(2,543,755)	(1,356)
Payments from debtors with multiple accounts	(85,111)	(69,991)
Other debtors	8,901,915	6,195,819
Leave debtors	166,285	166,285
Fair value adjustment	(25,087)	(20,554)
	6,414,247	6,270,203

Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

Receivables impaired

Receivables were impaired in accordance to the likelihood of non-recoverability, which in turn was based on the days outstanding. This was done practically by implementing a risk matrix which assigns different risk levels to debtors on the basis of their oldest debt. Each level of risk was then impaired partially accordingly.

5. Other receivables from non-exchange transactions

Government grants and subsidies	22,136,304	18,538,902
Consumer debtor: Rates	14,797,103	15,114,411
Impair for bad debts	(14,148,977)	(9,873,401)
Payments by debtors with multiple account numbers	(473,406)	(377,664)
	22,311,024	23,402,248

Consumer debtor: Rates

Gross balance	14,797,103	15,114,411
Less: Provision for debt impairment	(14,148,977)	(9,873,401)
	648,126	5,241,010

Rates

Current to 60 days	1,009,621	1,936,118
61 - 90 days	455,334	1,297,563
91 - 120 days	392,758	1,149,854
120 + days	12,939,389	10,730,876
less: Provision for debt impairment	(14,148,977)	(9,873,401)
	648,125	5,241,010

Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

Receivables impaired

Receivables were impaired in accordance to the likelihood of non-recoverability, which in turn was based on the days outstanding. This was done practically by implementing a risk matrix which assigns different risk levels to debtors on the basis of their oldest debt. Each level of risk was then impaired partially accordingly.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Petty cash on hand	22,084	16,084
Short-term deposits	2,972,616	2,438,943
Bank balances	331,408	265,256
Bank overdraft	(5,884,574)	(4,995,662)
	(2,558,466)	(2,275,379)
Current assets	3,326,108	2,720,283
Current liabilities	(5,884,574)	(4,995,662)
	(2,558,466)	(2,275,379)

Cash and cash equivalents pledged as collateral

Investments pledged as security.	1,783,324	1,685,550
The municipality will lose its right to the above amount which is a continuing general or collateral security for the bank overdraft not withstanding any intermediate settlement or discharge of its obligations or indebtedness towards the bank		

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2012	June 30, 2011	June 30, 2010
FNB - Business cheque account - 6202 195 027 6	(5,884,094)	(8,609,184)	(4,270,559)	(5,890,357)	(10,272,547)	(5,662,038)
Standard Bank - Business cheque account - 04 191 730 8	60,238	44,601	28,071	60,238	44,601	28,071
ABSA - Business cheque account - 246 014 2140	74,038	61,686	43,178	74,038	61,687	43,178
Post - Bank Current account-00088133677	197,132	-	-	197,132	-	-
Total	(5,552,686)	(8,502,897)	(4,199,310)	(5,558,949)	(10,166,259)	(5,590,789)

Included in the cashbook balance is outstanding cheques amounting to R6 263 (2011: 85 739)

7. Long term debtors

Garipepdam Housing Scheme	668	6,928
Less: Current portion transferred to current liabilities	-	(5,405)
	668	1,523

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	216,675,943	(109,255,553)	107,420,390	216,675,943	(104,960,836)	111,715,107
Infrastructure	1,320,424,348	(810,639,316)	509,785,032	1,294,378,247	(781,817,732)	512,560,515
Community	269,113,541	(212,782,259)	56,331,282	269,113,541	(204,538,428)	64,575,113
Other property, plant and equipment	7,098,215	(4,257,426)	2,840,789	6,566,333	(3,295,239)	3,271,094
Landfill sites	23,820,426	-	23,820,426	-	-	-
Total	1,837,132,473	(1,136,934,554)	700,197,919	1,786,734,064	(1,094,612,235)	692,121,829

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Buildings	111,715,107	-	(4,294,717)	107,420,390
Infrastructure	512,560,515	26,046,100	(28,821,583)	509,785,032
Community	64,575,113	-	(8,243,831)	56,331,282
Other property, plant and equipment	3,271,094	531,882	(962,187)	2,840,789
Landfill sites	-	23,820,426	-	23,820,426
	692,121,829	50,398,408	(42,322,318)	700,197,919

Reconciliation of property, plant and equipment - 2011

	Opening balance	Depreciation	Total
Buildings	116,080,419	(4,365,312)	111,715,107
Infrastructure	545,219,405	(32,658,890)	512,560,515
Community	73,043,105	(8,467,992)	64,575,113
Other property, plant and equipment	4,206,416	(935,322)	3,271,094
	738,549,345	(46,427,516)	692,121,829

Pledged as security

Carrying value of assets pledged as security:

Other property, plant and equipment (office equipment)	358,981	487,380
The value of the outstanding lease obligation is R 397 470 (2011 - R635 137). Refer to note 12.		

Deemed costs were determined for buildings, infrastructure and community assets using the depreciated replacement cost.

Deemed costs were also determined for other PPE assets using the fair values.

The aggregate adjustment to the carrying values of PPE in the prior year is R382 415 694.

Included in buildings are heritage assets of R816 919 (2011: R924 859)

Included in buildings are heritage assets for which no value could be determined:

Monuments 15

Historic buildings 2

No cost for the above heritage assets could be determined as historical costs are not available as at measurement date

9. Consumer deposits

Rates, water and refuse	1,359,627	1,155,390
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10. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Provision for Landfill Site rehabilitation	-	23,820,426	23,820,426

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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10. Provisions (continued)

Reconciliation of provisions - 2011

The rehabilitation requirements as per the Minimum Requirements for Waste Disposal by Landfill (DWAF, 1998), creates an obligation for the Municipality for future expenditure which is provided for.

11. Trade and other payables

Accrued audit fees	-	(3)
Trade payables	70,678,911	46,517,696
Bethulie housing projects	14,665	14,665
Centlec	6,516,124	5,572,271
Cash control	1,841,913	-
Leave provision	2,341,602	3,616,358
Bonus provision	1,753,052	1,338,348
Long service bonus provision	732,849	-
Debtors payments in advance	3,696,990	1,881,496
	87,576,106	58,940,831

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Long-term liabilities		
Held at amortised cost		
Mangaung 2 This loan is repayable in 2 annual instalments of R 20 034, excluding interest accrued at a rate of 10%, calculated annually.	40,069	60,103
Mangaung 3 This loan is repayable in 13 annual instalments of R 7 766, excluding interest accrued at a rate of 10%, calculated annually.	100,961	108,727
Mangaung 4 This loan is repayable in 3 annual instalments of R 32 238, excluding interest accrued at a rate of 10%, calculated annually.	96,716	128,954
Mangaung 5 This loan is repayable in 11 annual instalments of R 44 689, excluding interest accrued at a rate of 10%, calculated annually.	491,575	536,264
Mangaung 6 This loan is repayable in 12 annual instalments of R 15 304, excluding interest accrued at a rate of 10%, calculated annually.	183,647	198,951
Mangaung 7 This loan is repayable in 12 annual instalments of R 18 101, excluding interest accrued at a rate of 10%, calculated annually.	217,205	235,306
Mangaung 8 This loan is repayable in 11 annual instalments of R 11 634, excluding interest accrued at a rate of 10%, calculated annually.	127,972	151,239
Managaung 9 This loan is repayable in 12 annual instalments of R 24 016, excluding interest accrued at a rate of 10%, calculated annually.	288,195	253,793
Managaung 10 This loan is repayable in 1 annual instalments of R 13 228, excluding interest accrued at a rate of 10%, calculated annually.	13,227	26,455
Mangaung 11 This loan is repayable in 1 annual instalments of R 13 228, excluding interest accrued at a rate of 10%, calculated annually.	13,227	26,455
Mangaung 12 This loan is repayable in 13 annual instalments of R 58 419, excluding interest accrued at a rate of 10%, calculated annually.	759,446	864,649
	2,332,240	2,590,896
Non-current liabilities		
At amortised cost	2,073,584	2,332,240
Current liabilities		
At amortised cost	258,656	258,656
	2,332,240	2,590,896

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
13. Finance lease obligation		
Minimum lease payments due		
- within one year	526,322	633,112
- in second to fifth year inclusive	-	526,322
	526,322	1,159,434
less: future finance charges	(128,853)	(524,297)
Present value of minimum lease payments	397,469	635,137
Present value of minimum lease payments due		
- within one year	397,470	237,667
- in second to fifth year inclusive	-	397,470
	397,470	635,137
Non-current liabilities	-	397,470
Current liabilities	397,470	237,667
	397,470	635,137

The lease term is 3 years and the effective borrowing rate is 9% (2011: 9%). The outstanding lease amount is payable in monthly installment of R 58 480 (2011 - R 50 852)

Interest rates are fixed at the contract date. All leases escalate at 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 8.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Arts and craft grant (Dept of Sports and Culture)	500,000	500,000
Library Grant	27,894	-
Communage grant (DBSA)	26,171	26,171
Municipal Infrastructure grant	213,414	1,204,038
Municipal Systems Improvement Grant	790,000	-
Sport facilities grant (National Lottery)	301,981	301,981
Survey of erven grant (COGTA)	78,082	164,056
	1,937,542	2,196,246

Movement during the year

Balance at the beginning of the year	2,196,246	4,500,911
Additions during the year	32,212,419	42,583,195
Income recognition during the year	(32,471,123)	(44,887,860)
	1,937,542	2,196,246

Included in the MIG of R213 414 are the following grants:

- DWAF Grant	(R150 150)
- EPWP Grant	R228 000
- INEP Grant	R59 589
- MIG	R71 693
- Sludge Pump Grant (COGTA)	R4 285

The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for a reconciliation of grants.

15. VAT payable

VAT payables	3,218,359	4,630,285
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16. Revenue

Donations	-	46,100
Fines	87,610	129,865
Government grants & subsidies	111,411,693	117,507,526
Other revenue	2,617,055	2,146,541
Property rates	7,538,797	7,515,084
Rental of facilities & equipment	1,067,282	998,130
Sale of goods	37,391	36,449
Service charges	63,068,661	52,908,021
	185,828,489	181,287,716

The amount included in revenue arising from exchanges of goods or services are as follows:

Other revenue	2,617,055	2,146,541
Rental of facilities & equipment	1,067,282	998,130
Sale of goods	37,391	36,449
Service charges	63,068,661	52,908,021
	66,790,389	56,089,141

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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16. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Donations	-	46,100
Fines	87,610	129,865
Government grants & subsidies	111,411,693	117,507,526
Property rates	7,538,797	7,515,084
	119,038,100	125,198,575

17. Investment revenue

Interest revenue

Bank	454,281	94,347
Fair value adjustments on receivables	-	161,996
Interest charged on trade and other receivables	5,190,946	3,407,548
	5,645,227	3,663,891

18. Finance costs

Bank	195,234	233,315
Finance leases	395,445	489,775
Long-term loans	518,180	284,956
Other interest paid	4,081,091	1,138,476
	5,189,950	2,146,522

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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19. Prior period errors

The following errors occurred in relation to the prior financial year which necessitated correction in the current financial year. The errors were corrected retrospectively in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

19.1 Retirement benefit obligation

Prior to 2012 no work was done to determine the Municipality's obligation regarding retirement benefits. Actuaries were appointed during the current financial year to establish the estimated obligation for both the current, as well as prior annual financial years. This resulted in a prior period error which has the following effect:

Increase in Retirement benefit obligation	R14 858 115
Decrease in opening balance Accumulated Surplus	R14 858 115

19.2 Water inventory

Water inventory was never before valued at year end, resulting in the stock at hand being understated. The quantity of water in the reticulation system has been calculated at 30 June 2012. This quantity is expected to remain the same year on year, barring any expansions in the systems. It was thus estimated to have been the same quantity that would have been in the system at 30 June 2011. The value of the water inventory could thus be calculated, resulting in a prior period error of R47 864.32.

19.3 Change in accounting policy: Property, plant and equipment and heritage assets

In terms of Directive 4: "Transitional Provisions for Medium and Low Capacity Municipalities" issued by the Accounting Standards Board, the municipality had transitional provisions for GRAP 17: Property, plant and equipment. These provisions were adopted in prior financial years. The municipality has now accounted for PPE by fully complying to GRAP 17 and this has been accounted for as a change in accounting policy. The effects of this change have been retrospectively accounted in terms of GRAP 3. The effects are as follows:

Effect on opening balance	
Increase cost of PPE at 01/07/2010	1,428,240,496
Increase accumulated depreciation at 01/07/2010	(1,045,824,802)
Increase in accumulated surplus at 01/07/2010	(382,415,694)
Effect on 2010/11 financials	
Increase in depreciation	46,427,516
Increase in accumulated depreciation	(46,427,516)

19.4 Investment Property

Investment property of R9 491 880 was incorrectly disclosed as part of PPE in the previous financial year.

Effect on opening balances:

Property, plant and equipment 2011 decrease by R9 491 880.

Investment property increase by R9 491 880.

19.5 Commitment

-Commitments for capital expenditure was incorrectly disclosed as R35 956 366. This has been corrected and the correct amount of commitment at 30 June 2011 is restated as R26 969 316

-An amount of R15 104 993 was disclosed in Note 31 at 30 June 2011 as "Not yet contracted for but approved by the accounting officer". This amount has been restated to R0.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
20. Cash generated from operations		
Deficit	(38,976,109)	(14,095,090)
Adjustments for:		
Depreciation and amortisation	42,430,260	46,427,516
Fair value adjustments	1,223,416	3,160,602
Finance costs - Finance leases	395,445	489,775
Debt impairment	23,878,024	14,784,362
Movements in retirement benefit assets and liabilities	3,266,428	14,858,115
Movements in provisions	23,820,426	-
Correction of prior period error	24,283,951	(15,938,076)
Other non-cash items - Housing Development Fund	(511,395)	-
Other non-cash items - Capital Replacement Fund	(3,320,845)	-
Corection of PPE due to compilation of asset register	(30,434,399)	(31,589,976)
Changes in working capital:		
Inventories	(90,060)	(63,806)
Other receivables from exchange transactions	(144,044)	(6,156,840)
Other receivables from non-exchange transactions	1,091,224	(4,173,831)
Consumer debtors	(21,856,956)	(14,326,382)
Short term portion of long term debtors	5,405	342
Trade and other payables	28,635,272	12,903,648
VAT	(1,411,926)	1,607,354
Unspent conditional grants and receipts	(258,704)	(580,617)
Consumer deposits	204,237	442,537
	52,229,650	7,749,633

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
21. Government grants and subsidies		
COGTA grant - paid Auditor General	-	3,116,871
Draught relief COGTA	-	478,753
Equitable share	81,637,000	74,403,500
Financial Help: COGTA	-	4,300,000
Financial management grant	-	1,402,002
Library grant	-	73,000
Revenue from Grants	29,774,693	30,956,120
Municipal Systems Information Grant	-	750,000
VAT from capital grants	-	2,027,280
	111,411,693	117,507,526
Arts and craft grant (Dept. of Sports and Culture)		
Balance unspent at beginning of year	500,000	500,000
Conditions still to be met - remain liabilities (see note 14)		
COGTA grant - paid Auditor General		
Current-year receipts	-	3,116,871
Conditions met - transferred to revenue	-	(3,116,871)
	-	-
Communage grant (DBSA)		
Balance unspent at beginning of year	26,171	26,171
Conditions still to be met - remain liabilities (see note 14)		
Draught relief COGTA		
Balance unspent at beginning of year	478,753	478,753
Conditions met - transferred to revenue	(478,753)	-
	-	478,753
Equitable Share		
In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidise the provision of basic services to indigent community members and to subsidise income. No significant decrease is expected in the level of this grant.		
Financial help (COGTA)		
Balance unspent at beginning of year	4,300,000	-
Current-year receipts	-	4,300,000
Conditions met - transferred to revenue	(4,300,000)	-
	-	4,300,000
Financial management grant		
Balance unspent at beginning of year	1,402,002	547,999
Current-year receipts	-	1,200,000
Conditions met - transferred to revenue	(1,402,002)	(345,997)
	-	1,402,002

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
21. Government grants and subsidies (continued)		
Library grant		
Current-year receipts	100,000	73,000
Conditions met - transferred to revenue	(72,106)	(73,000)
	27,894	-
Municipal infrastructure grant		
Balance unspent at beginning of year	30,956,120	29,036,612
Conditions met - transferred to revenue	(3,039,491)	(107,772)
VAT - Department of Water Affairs	-	2,027,280
	27,916,629	30,956,120
Conditions still to be met - remain liabilities (see note 14)		
Municipal systems improvement grant		
Balance unspent at beginning of year	750,000	735,000
Current-year receipts	40,000	15,000
	790,000	750,000
22. Property rates		
Rates received		
Rates	7,538,797	7,515,084
The details of rates levied as per different categories on the valuation roll were not available for the year under review.		
Valuations		
Church	20,624,000	21,105,000
Commercial	102,462,884	100,742,900
Empty site, no tariff and municipal property	204,831,354	37,378,876
Hospital	409,000	1,458,000
Residential	628,780,901	893,717,635
School	50,830,000	43,460,500
Small holdings and farms	2,482,316,000	2,485,374,000
State	154,458,672	30,665,000
	3,644,712,811	3,613,901,911
Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.		
23. Service charges		
Refuse removal	6,335,715	6,020,613
Sale of electricity	39,976,503	31,130,721
Sale of water	7,977,718	7,465,594
Sewerage and sanitation charges	8,778,725	8,291,093
	63,068,661	52,908,021

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
24. Bulk purchases		
Electricity	29,134,055	22,437,433
Water	18,848,235	16,775,734
	47,982,290	39,213,167
25. Debt impairment		
Contributions to debt impairment provision	23,878,024	14,784,362

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
26. Employee related costs		
Basic	46,763,460	38,278,721
Bonus	3,465,044	2,906,546
Bonus provision	789,214	120,032
Car allowance	3,532,662	3,405,250
Housing benefits and allowances	105,136	115,994
Leave pay provision charge	(342,514)	-
Long-term benefits - incentive scheme	788,297	-
Medical aid	2,831,658	1,991,580
Other allowances	339,859	287,076
Overtime payments	1,396,236	1,108,935
Pension fund contributions	7,019,165	5,267,244
Leave provision	-	120,077
Telephone allowance	189,764	159,083
UIF	417,687	368,786
	67,295,668	54,129,324

Remuneration of Municipal Manager

Basic	515,552	493,019
Bonus	69,013	41,821
Leave pay	108,793	-
Acting allowance	-	5,311
Travel allowance	273,381	302,605
Cellphone allowance	3,600	3,600
Back pay	7,495	-
Contributions to UIF, Medical and Provident Fund	20,459	15,180
	998,293	861,536

Remuneration of Chief Finance Officer

Basic	400,627	502,497
Bonus	6,941	41,643
Back pay	4,350	-
Travel allowance	40,667	108,441
Leave payment	59,966	-
Contributions to UIF, Medical and Provident Fund	6,562	1,497
	519,113	654,078

Remuneration of Head Technical Services

Basic	399,857	382,265
Bonus	30,989	31,868
Salary correction	46,353	-
Back pay	9,165	-
Travel allowance	192,470	212,390
Contributions to UIF, Medical and Provident Fund	31,802	33,812
	710,636	660,335

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
26. Employee related costs (continued)		
Remuneration of Head Corporate Services		
Basic	399,857	382,419
Bonus	30,989	31,868
Salary correction	61,378	-
Back pay	5,813	-
Travel allowance	209,647	227,902
Leave payment	61,661	-
Contributions to UIF, Medical and Provident Fund	18,078	10,683
	787,423	652,872
Remuneration of Head Community Services		
Basic	400,607	382,380
Bonus	30,989	31,868
Salary correction	57,943	-
Back pay	5,813	-
Car allowance	177,756	198,850
Housing allowance	9,786	9,786
Leave payment	55,171	-
Contributions to UIF, Medical and Provident Fund	31,802	29,300
	769,867	652,184
27. General expenses		
Advertising	457,862	86,730
Audit fees	3,809,374	3,876,726
Bank charges	311,476	201,871
Bloem Water Electricity	3,532,409	3,324,129
Chemicals	2,453,017	3,747,178
Cleaning	48,742	22,133
Commission vendors	586,884	1,192,082
Consumables	6,522	-
Departmental electricity	6,184,861	5,052,079
Discretionary fund: Council	123,781	66,557
Entertainment	27,715	23,340
Equitable share expenses	1,720,225	1,045,250
Retirement Benefit Costs	1,197,939	-
Consulting fees	1,318,454	-
Fuel and oil	1,266,592	1,204,201
Functioning Ward Committees	16,971	3,350
General expenses IAS39	-	(2,727,539)
IDP review	305,219	40,681
Industrial Council	23,157	23,243
Insurance	538,495	488,962
Interim valuation cost	900,000	1,287,633
Legal fees and relating interest	761,870	2,607,167
License fees	81,663	37,980
Membership fees	356,436	180,715
Other expenses	2,562,844	4,124,588
Performance Management System	-	25,874
Postage and stamps	43,669	12,298
Printing and stationery	442,994	330,834
Promotions and sponsorships	(30,869)	-
Protective clothing	204,474	623,556
Rental expenses	203,924	705,484
Repayment of arrear creditor	561,026	798,490

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
27. General expenses (continued)		
Sewerage and waste disposal	(49)	-
Skills Development Levy	540,069	71,087
Software licenses	195,957	29,806
Sports tournament	6,850	-
Subsistence and travelling	1,073,232	735,588
Telephone and fax	1,819,090	2,009,689
Tools	-	11,389
Training	636,383	187,730
Transport and freight	34,096	46,127
Water	29,162	-
	34,352,516	31,497,008

28. Remuneration of councillors

Mayor and Speaker	1,341,275	1,107,672
Councillors	2,304,402	2,326,464
	3,645,677	3,434,136

In-kind benefits

The Mayor and Speaker are full time employees of the municipality. They are provided with an office and administration and support at the cost of the Council

All remuneration made to councillors were within the upper limits of the framework set out in section 217 of the constitution.

29. Auditors' remuneration

Fees	3,809,374	3,876,726
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30. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Total
Trade receivables from exchange transactions	6,137,597	6,137,597
Other receivables from exchange transactions	5,821,156	5,821,156
Other receivables from non exchange transactions	21,791,802	21,791,802
Cash and cash equivalents	3,326,108	3,326,108
Long term debtors	668	668
	37,077,331	37,077,331

2011

	Loans and receivables	Total
Trade receivables from exchange transactions	387,793	387,793
Other receivables from exchange transactions	7,718,813	7,718,813
Other receivables from non-exchange transactions	23,482,248	23,482,248
Cash and cash equivalents	2,720,282	2,720,282
Long term debtors	6,928	6,928
	34,316,064	34,316,064

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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31. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Consumer deposits	1,204,684	1,204,684
Trade and other payables	86,107,626	86,107,626
Long-term liabilities	2,590,896	2,590,896
Finance lease obligation	397,470	397,470
Unspent conditional grants	2,838,680	2,838,680
VAT payable	4,052,306	4,052,306
Retirement Benefit Obligation	18,124,543	18,124,543
Bank overdraft	5,884,094	5,884,094
	121,200,299	121,200,299

2011

	Financial liabilities at amortised cost	Total
Consumer deposits	1,155,390	1,155,390
Trade and other payables	58,940,833	58,940,833
Long-term liabilities	2,590,896	2,590,896
Finance lease obligation	635,137	635,137
Unspent conditional grants	2,196,246	2,196,246
VAT payable	4,630,285	4,630,285
Retirement Benefit Obligation	14,858,115	14,858,115
Bank overdraft	4,995,662	4,995,662
	90,002,564	90,002,564

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	11,748,380	26,969,316
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This committed expenditure relates to infrastructure and will be financed by available bank facilities, retained surpluses, loans and government grants.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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33. Contingencies

33.1 Litigation is in progress against the municipality relating to disputes and arbitration with former employees who allege that the municipality unlawfully dismissed them. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. However, it can not be determined at this time when the disputes will be resolved or exactly how much claims and damages the municipality will be required to make. The estimated legal costs amount to R640 000

33.2 The municipality is involved in a civil action regarding the claim for damages from the municipality by the plaintiff to the amount of R 1 430 948 plus interest. The estimated legal cost is R 200 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

33.3 The municipality makes use of unregistered landfill sites, which could incur potential fines and penalties, the value and likelihood of which cannot be estimated.

34. Related parties

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

35. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	More than 1 year
2012		
Consumer deposits	1,204,684	-
Trade and other payables	86,107,626	-
Long-term liabilities	2,332,240	258,656
Finance lease obligation	397,470	-
Retirement Benefit Obligation	426,300	17,698,243
Unspent conditional grants	2,838,680	-
VAT payable	4,052,306	-
Bank overdraft	5,884,094	-
	103,243,400	17,956,899
2011		
Consumer deposits	1,155,390	-
Trade and other payables	53,605,869	-
Long-term liabilities	258,656	2,332,240
Retirement Benefit Obligation	387,684	14,470,431
Finance lease obligation	237,667	397,470
Unspent conditional grants	1,532,976	-
VAT payable	4,543,786	-
Bank overdraft	5,822,987	-
	67,545,015	17,200,141

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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35. Risk management (continued)

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates are minimal

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to notes 3 and 5 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Foreign exchange risk

The municipality does not engage in foreign currency transactions.

Price risk

The municipality is not exposed to price risk.

36. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business atleast for the next twelve months.

The Municipality is situated in a previous disadvantaged background and the community is not able to pay for services as a high percentage of the population is indigent. The collection rate of consumer debtors is therefore also low. This has resulted in a weak cashflow situation and as a result the municipality is not always able to settle its accounts within 30days. The Municipality does however receive government grants, such as an allocated equitables share grant in terms of the Division of Revenue Act and will therefore be operational as a going concern in the foreseeable future.

37. Events after the reporting date

The municipality has no events after reporting date during the financial year ended 2011/2012.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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38. Unauthorised expenditure

Opening balance	86,552,022	70,636,698
Budget overspending	65,714,217	15,915,324
	152,266,239	86,552,022

No criminal or disciplinary steps were taken as a consequence of above expenditure.

39. Fruitless and wasteful expenditure

Opening balance	19,852,445	16,264,044
Fruitless and wasteful expenditure - current year	3,328,391	3,588,401
	23,180,836	19,852,445

No criminal or disciplinary steps were taken as a consequence of above expenditure.

40. Irregular expenditure

Opening balance	78,010,322	39,092,491
Add: Irregular Expenditure - current year	59,760,285	38,917,831
	137,770,607	78,010,322

No criminal or disciplinary steps were taken on the above expenditure.

41. In-kind donations and assistance

Property, plant and equipment	-	46,100
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A Toyota Hilux was donated by the Government Garage to the municipality.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
42. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government - SALGA		
Opening balance	203,831	51,504
Current year contributions	222,949	152,327
Amount paid - current year	(203,831)	-
	222,949	203,831
Material losses through criminal conduct		
Theft of speakers at town hall	-	1,200
Audit fees		
Opening balance	821,017	1,519,249
Current year fee	3,759,611	801,768
Amounts paid	(821,017)	(1,500,000)
	3,759,611	821,017
PAYE and UIF		
Opening balance	3,232,701	2,990,156
Current year payroll deductions	6,822,872	4,797,392
Penalties and interest	845,460	395,817
Corrections made	25,250	(3,194,309)
Amounts paid	(850,000)	(1,756,355)
From VAT	(3,275,654)	-
	6,800,629	3,232,701

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	9,603,798	19,794,620
Current year payroll deductions	15,524,239	13,336,156
Amounts paid	(9,573,112)	(23,526,978)
	15,554,925	9,603,798

VAT

VAT payable	3,218,359	4,630,285
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2012:

June 30, 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr JT Koyana	1,324	6,591	7,915
Mr ME Masana	479	824	1,303
Mr D Matseo	1,676	11,260	12,936
Mr LA Rigala	544	3,012	3,556
MR SA Sola	1,044	20,043	21,087
	5,067	41,730	46,797

June 30, 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr TX Matwa	465	640	1,105
Mr JT Koyana	527	7,462	7,989
Mr D Phepheng	876	5,055	5,931
Mr A Rigala	366	1,279	1,645
Mr SA Sola	1,962	13,479	15,441
	4,196	27,915	32,111

Other non-compliance

Section 9(b) of the MFMA requires that annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.

Section 32(2) (a) of the MFMA requires that a municipality recovers unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure- in case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council. No irregular or fruitless and wasteful expenditure were recovered or certified by the council as irrecoverable and written off.

Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by this section.

Section 62(1)(d) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented. No steps were taken by the municipality to prevent unauthorised, irregular or fruitless and wasteful expenditure.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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42. Additional disclosure in terms of Municipal Finance Management Act (continued)

In terms of section 65(2)(e) of the MFMA the accounting officer must take reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Contrary to this requirement, all money owing by the municipality was not paid within 30 days of receiving the relevant invoice or statement.

Distribution losses (Water	2012	2011
Number of users -	12 054	11 970
Units bought -	5 303 013	4 566 127
Units sold -	1 364 468	1 567 983
Free basic service -	807 888	728 856
Units lost on distribution -	3 070 657	2 269 288
Amount of unit losses -	R 10 850 792	R 9 580 579
Units lost in distribution as percentage -	57.90%	49,7%
Distribution losses (Electricity)	2012	2011
Units bought -	44 207 336	23 658 885
Units sold -	42 373 684	19 196 365
Units lost in distribution -	1 833 653	4 462 520
Amount of unit losses -	R1 743 474	R2 397 712
Units lost in distribution as a percentage -	4.15%	18.89%

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that she records the reasons for any deviations and includes a note to the annual financial statements.

Goods and services to the value of R 0 (2010/11: R 304 824) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

44. Comparative between budet and actual information

2012

	Original budget	Revised budget (i.t.o. s28 and s31 of the MFMA)		Final budget	Actual outcome		Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	11,823,000	10,957,000		10,957,000	7,538,797		3,418,203	69 %	64 %
Service charges	58,234,000	58,234,000		58,234,000	63,068,661		(4,834,661)	108 %	108 %
Investment revenue	-	-		-	5,645,227		(5,645,227)	DIV/0 %	DIV/0 %
Transfers recognised - operational	81,574,000	81,574,000		81,574,000	111,411,693		(29,837,693)	137 %	137 %
Other own revenue	13,424,000	14,291,000		14,291,000	3,809,338		10,481,662	27 %	28 %
Total revenue (excluding capital transfers and contributions)	165,055,000	165,056,000		165,056,000	191,473,716		(26,417,716)	116 %	116 %
Employee costs	(50,253,000)	(61,443,000)	-	(61,443,000)	(67,295,668)	-	5,852,668	110 %	134 %
Remuneration of councillors	(5,104,000)	(5,456,000)	-	(5,456,000)	(3,645,677)	-	(1,810,323)	67 %	71 %
Debt impairment	-	-		-	(23,878,024)	-	23,878,024	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(7,000,000)	(7,000,000)		(7,000,000)	(42,430,260)	-	35,430,260	606 %	606 %
Finance charges	-	-	-	-	(5,189,950)	-	5,189,950	DIV/0 %	DIV/0 %
Materials and bulk purchases	(42,328,000)	(42,328,000)	-	(42,328,000)	(47,982,290)	-	5,654,290	113 %	113 %
Other expenditure	(67,371,000)	(55,614,000)	-	(55,614,000)	(40,027,956)	-	(15,586,044)	72 %	59 %
Total expenditure	(172,056,000)	(171,841,000)	-	(171,841,000)	(230,449,825)	-	58,608,825	134 %	134 %
Surplus/(Deficit)	(7,001,000)	(6,785,000)		(6,785,000)	(38,976,109)		32,191,109	574 %	557 %

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Surplus/(Deficit) for the year	(7,001,000)	(6,785,000)		(6,785,000)	(38,976,109)		32,191,109	574 %	557 %

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Sources of capital funds									
Transfers recognised - capital	49,390	49,390		49,390	24,466		24,924	50 %	50 %
Internally generated funds	2,100	1,850		1,850	2,112		(262)	114 %	101 %
Total sources of capital funds	51,490	51,240		51,240	26,578		24,662	52 %	52 %

45. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	9,491,880	-	9,491,880	9,491,880	-	9,491,880

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	9,491,880	9,491,880

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was Saturday, June 30, 2012. Revaluations were performed by Modisenyane Property Consultants, an independent valuer. Modisenyane Property Consultants are members of the Institute of Valuers and they have appropriate qualifications and relevant experience in the valuation of properties in the relevant locations.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012

2011

45. Investment property (continued)

The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Amounts recognised in surplus and deficit for the year.

46. Retirement benefits

Defined benefit plan

The plan is a post employment medical benefit plan.

The post-employment health care liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.

Post retirement medical aid plan

General description

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Reconciliation of accrued liability

	Year ending 30 Jun 2011	Year ending 30 Jun 2012	Year ending 30 Jun 2013	Year ending 30 Jun 2014
Opening accrued liability	11,990,404	14,858,115	18,124,543	20,572,676
Current service cost	939,955	1,175,981	1,429,468	1,544,761
Interest cost	1,056,531	1,280,192	1,444,965	1,641,232
Contributions (benefits paid)	(343,380)	(387,684)	(426,300)	(456,266)
Total annual expense	1,653,106	2,068,489	2,448,133	2,729,727
Actuarial Loss / (Gain)	1,214,605	1,197,939		
Closing accrued liability	14,858,115	18,124,543	20,572,676	23,302,403

Notes:

(i) These projections assume that the Municipality's health care arrangements and subsidy policy will remain as outlined in Section 3, and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the Municipality towards prefunding its liability via an off-balance sheet vehicle.

(ii) Contributions or benefits paid refer to medical scheme contributions made by the Municipality with respect to its subsidy of current continuation members.

(iii) There are no Past Service Costs, Curtailments or Settlements to reflect.

The Municipality's Accrued Unfunded Liability at 30 June 2012 is estimated at R 18,124,543. The Current-service Cost for the year ending 30 June 2012 is estimated at R 1,175,981. It is estimated to be R 1,429,468 for the ensuing year.

Financial Assumptions

	Value p.a.
Discount rate	8.07%
Health care cost inflation rate	7.03%
Net effective discount rate	0.97%

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 8.07% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 29 June 2012. This rate does not reflect any adjustment for taxation.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
-----------------	------	------

46. Retirement benefits (continued)

A health care cost inflation rate of 7.03% has been assumed. This is 1.75% in excess of expected CPI inflation over the expected term of the liability, namely 5.28%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.97% which derives from $(8.07\% - 7.03\%) / 1.0703$.

The expected inflation assumption of 5.28% was obtained from the differential between market yields on index-linked bonds and bonds consistent with the estimated term of the liabilities (2.17%) and those of nominal bonds (8.07%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $(8.07\% - 0.50\% - 2.17\%) / 1.0217$.

The next contribution increase was assumed to occur with effect from 1 January 2013.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Demographic Assumptions

Average retirement age	60		
Continuation of membership at retirement	90%		
Proportion assumed married at retirement	90%		
Proportion of eligible current non-member employees joining the scheme by retirement	20%		
Mortality during employment		SA 85-90	
Mortality post-retirement		PA90-1 ultimate	
Withdrawal from service (sample annual rates)	<u>Age</u>	<u>Females</u>	<u>Males</u>
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	> 55	0%	0%

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

Pre-retirement Mortality: SA85-90 ultimate table, adjusted for female lives.

Post-retirement Mortality: PA(90) ultimate table, adjusted down by one year of age.

Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Average Retirement Age: The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 60, which then implicitly allows for expected rates of early and ill-health retirement.

Continuation of Membership: It has been assumed that 90% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement. Further, it was assumed that 20% of eligible non-members would join a medical aid scheme by retirement, and thus qualify for the subsidy.

Family Profile (retirees): It has been assumed that 90% of those in-service members who remain on the health care arrangements will be married at retirement. Further, it has been assumed that in-service husbands will be four years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Other Assumptions

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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46. Retirement benefits (continued)

sustainable, and will continue.

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Sensitivity analysis

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iii) A one-year decrease in the assumed average retirement age; and
- (iv) A 50% reduction in the assumed withdrawal rates

The following table summarises the results of the sensitivity analysis. (*R Millions*)

<u>Assumption</u>	<u>Change</u>	<u>In-service</u>	<u>Continuation</u>	<u>Total</u>	<u>% change</u>
Central Assumptions		12.139	5.986	18.125	
Health care inflation	1%	14.803	6.639	21.442	18%
	-1%	10.059	5.422	15.481	-15%
Post-retirement mortality	-1 yr	12.541	6.229	18.770	4%
Average retirement age	-1 yr	13.207	5.986	19.193	6%
Withdrawal Rate	-50%	13.794	5.986	19.780	9%

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 18% higher than that shown.

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(18,124,543)	(14,858,115)
Non-current liabilities	(17,698,243)	(14,470,431)
Current liabilities	(426,300)	(387,684)
	(18,124,543)	(14,858,115)

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2012